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Brazil

Organic Products

Report

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Report Highlights:

The organic trend in Brazil shows tremendous potential. The offer of organic products in the local market is predominantly fresh produce. There is a limited supply of processed organic products. Organics occupy a premium-consumer niche market. Prices of organic items are currently approximately three times those of regular products. This scenario highlights opportunities for U.S. organic products in the Brazilian market.

Includes PSD changes: No

Includes Trade Matrix: No

Unscheduled Report

Sao Paulo[BR2], BR

I. SUMMARY

Production of organic products was introduced in Brazil during the 1970's. Initially, the organic crop was concentrated in southern Brazil. At that time, organic farming was done on small farms and with limited commercial viability. It was during the 1990's that the sector began to take hold. Official statistics related to the organic sector are still nonexistent. However, trade sources estimate that, today, the country has approximately 150,000 hectares of certified organic and in-conversion area.

The turnover of certified organic products is estimated to have reached Reals (R\$) 240 million (US\$100 million) in 2001, which represents, in nominal value, an 86 percent increase compared to 1999 (see FAS report BR9616) (R\$129 million (US\$150 million at the corresponding ROE)). The local market consumes approximately half of this total with the remainder exported, mainly to Europe, Japan and the United States. Within Brazil, São Paulo is the dominant market. Together, São Paulo and Rio de Janeiro account for 80 percent of total consumption. The states of Rio Grande do Sul, Paraná and Santa Catarina account for 10 percent and the other states absorb the remaining 10 percent. Trade sources estimate the potential growth of the organic industry at 20 percent per year during this decade.

Despite the presence of 17 local certifying agents (LCA) nationwide, the certification process is still a complex issue. Within the organic industry exists a high proportion of small family growers, for whom the cost of certification is prohibitive. In order to turn the organic sector into a market-oriented business, the Government of Brazil (GOB) and all others involved with this industry, will need not only to enforce standards but also ensure a socially sustainable environment for small growers.

The major distribution avenue for organic products is supermarkets, which account for approximately 80 percent of total sales. Other channels, however, such as street markets and natural food stores also participate. Organic producers are also directing efforts towards the hotel, restaurant and institutional service (HRI) industry. According to local growers, logistic costs to operate with restaurants are higher due to small quantities and short notice orders. Therefore, the segment is gaining more and more attention from local producers/distributors.

Despite its exponential growth in the past years, the Brazilian organic industry is still developing. The selection of products being offered to Brazilian consumers continues limited and includes fruits, vegetables, condiments, coffee, sugar, cocoa, grains, orange juice, nuts and meat. The presence of organic processed products in the local market is insignificant.

Following the same path, in the last three years, the demand for health products also grew. According to the Brazilian Association of Dietetic Foods (ABIAD), total sales of these items increased 15 times since 1990. Current changes in eating habits has driven the market to significant changes. As highlighted by ABIAD, in the last ten years, 750 types of low-fat and sugar-free products were introduced in the local market. In 2000, the industry generated sales of R\$2.2 billion (US\$1.2 billion). ABIAD also indicates total gross sales are likely to increase to R\$7 billion in 2005.

The organic and health products markets represent real opportunities for U.S. companies. Exporters considering such entry opportunities may find it useful to evaluate the following advantages and challenges:

| Advantages | Challenges |
|--|--|
| Brazilian supply of organic items is very limited, encompassing perishable and semi-processed products. | Sell the concept of organic processed items to consumers. |
| The Brazilian food processing industry has not yet showed the ability to develop organic processed items. | Sell the concept of organic processed items to trade. |
| Domestic organic products are currently overpriced (on average up to 300% compared to conventional items). Therefore, imported products can find a feasible place inside this premium niche and still be competitive. | The tendency of traders to apply higher margins on organic items regardless the price negotiated with suppliers. |
| U.S. products are viewed as high quality. Therefore, if an American product is not certified organic locally, it will not mean that it necessarily loses its creditibility among consumers. Organic product consumers tend to be more educated and will use their own judgment in considering the original organic seal. | While a certifying process for imported items has not yet been implemented, exporters will need to develop their company image to consolidate the image of organic products. |

II. REGULATIONS AND POLICIES

On May 17, 1999, the Ministry of Agriculture, Livestock and Food Supply (MAPA), published the Normative Instruction # 7 (NI7), establishing national standards for the production and handling of organically produced products, including a list of substances approved for and prohibited from use in organic production. The NI7 defines organic standards for production, manufacturing, classification, distribution, packaging, labeling, importation, quality control and certification, of both animal and plant origin products. The policy also establishes rules for companies wishing to be accredited as an LCA. Under the rules, LCA's will enforce the NI7 and certify production and operations.

Imported organic products (already certified at the country of origin) must follow current Brazilian legislation. All food products are subject to sanitary, phytosanitary and plant and animal inspection requirements. Previous analysis and authorization from a certifying agent accredited by the "Orgao Colegiado Nacional" (National Council for Organic Production) is also required.

According to MAPA, today no LCA is able to formally conduct analyses on imported organic processed products. MAPA is working on this issue and a resolution is expected during 2002. Consequently, imported processed organic products are not being certified by Brazilian LCA's.

III. CONSUMPTION AND MARKET SECTORS

A. CONSUMPTION

Brazilian consumers of organic foods are not extremists. According to research conducted in 2000 by a local LCA, the Organic Growers Association (AAO), organic shoppers are pursuing balance. The study demonstrated that 60 percent of those interviewed eat red meat on a regular basis and maintain heavy Brazilian dishes as part of their diet. A larger number of Brazilians aspire towards healthier eating habits and quality of life, although it is a hard regime to follow in modern society. Brazilian consumers are counter-balancing bad eating habits by incorporating high quality and nutritious products in their menu. Another survey, conducted by Gallup Institute in 2000, revealed that 7 out of 10 São Paulo consumers would be willing to pay 30 percent more for organic products if the origin and characteristics were unquestionable.

Besides health and nutrition issues, organic consumers demonstrate a higher level of environmental consciousness compared to the general consumer. They are politically and ideologically motivated, engaging the cause of sustainable development to improve quality of life.

Consumers of organic products can be divided by light, moderate and heavy users. As mentioned by retail employees, organic products have a high acceptance as they are perceived as higher quality. Therefore, among Brazilian consumers, there is confusion about the "organic" concept.

Today, the Brazilian consumer of organic products tends within the very high-end cluster. When compared to regular products, organic items can be found on retail shelves with margins that exceed 300 percent. When organic products were introduced in the Brazilian market they had an exotic appeal and, as suppliers were limited, prices were very high. As other producers entered the market and started to offer constant supply, prices moderated. However, as the premium price position was accepted by a niche of consumers, retailers appear to prefer to maintain the high margins.

B. MARKET SECTORS

1. Retail Foods

1.1. Entry Strategy

In Brazil, the retail channel is responsible for approximately 80 percent of food distribution. As for general imported products, U.S. exporters seeking entry to the Brazilian market should contact top retailers, local import companies and boutiques supermarkets early in the process.

Major retail stores generally have an import department in which import operations of all products are usually concentrated. U.S. firms are invited to use ATO staff assistance to identify key contacts within the industry. Catalogues and samples made available to import buyers are an effective means to gain attention.

ATO Brazil also maintains product catalogues for reference. When importers and retailers wish to expand their U.S. product line, ATO resources are sought. U.S. firms wishing to pre-position such product and company information are invited to send copies to the ATO at the APO address on page 9. Such brochures have become a substantial tool used by ATO staff to increase awareness of U.S. products and suppliers among Brazilian buyers. Inclusion in the FAS

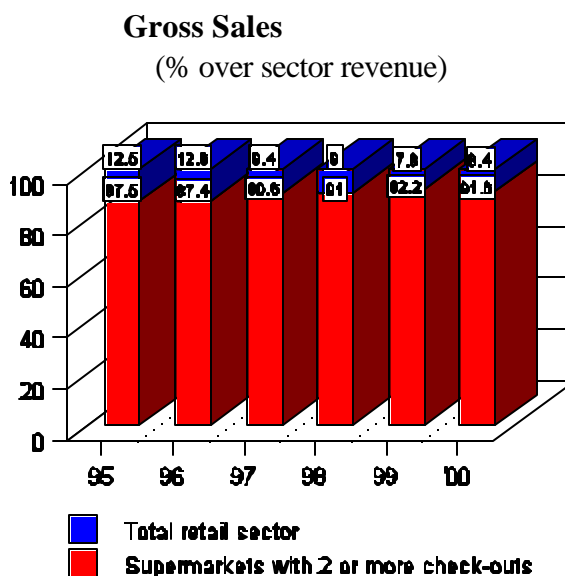
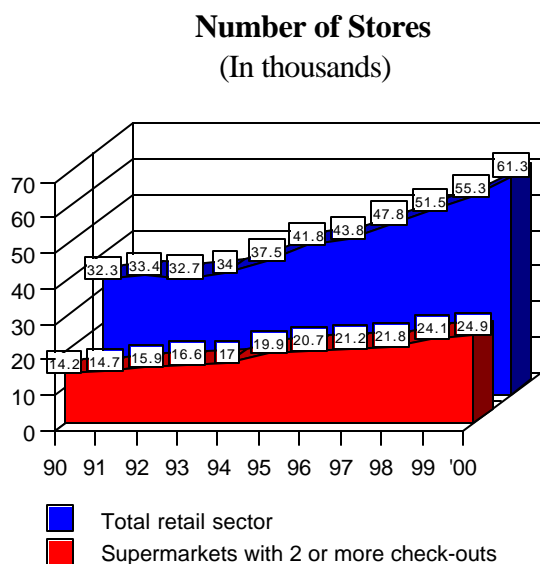
Suppliers List is a the primary means to make your company and product line known across the FAS international system. For information on the Suppliers List, please contact the Agricultural Export Services Division at the address also noted on page 9.

As the Brazilian market lacks organic processed items, U.S. exporters will need to use marketing skills to sell their products in the local importers and position them as "organic." As local organic products are over priced there is a real opportunity for foreign companies compete and gain share in the segment.

1.2. Market Summary

In 2000, the retail sector accounted for 6.2 percent of the national GDP, following the positive trend of the economy. The sector summed R\$67.8 billion (US\$37 billion), in nominal value, which is a 12.4 percent increase compared to 1999. However, if the IGP-DI deflation index is applied, sector results fall to R\$59.4 billion, which represent a decrease in revenues of 1.23 percent. Nevertheless, it is still an outstanding result for the sector when compared to deflated gross sales which declined 2.7 percent in 1999.

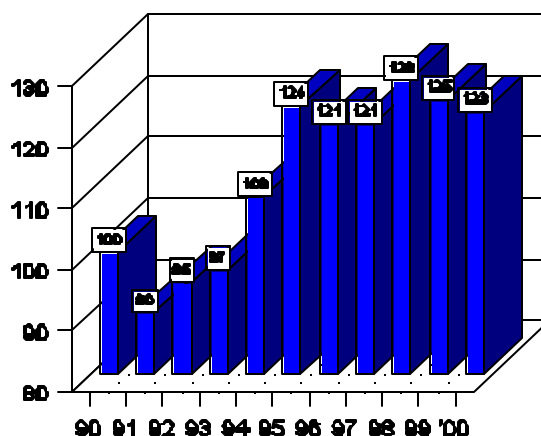
The supermarket segment (stores with 2 or more check-outs) gross sales amounted to R\$62.1 billion, which accounted for 91.6 percent of sales for the entire retail sector. The retail sector closed 2000 with 61,259 stores. The supermarket segment had 23,220, or 38 percent of the total stores, demonstrating the proliferation of small businesses. Nevertheless, the Brazilian retail sector continues consolidating. According to the Brazilian Supermarket Association (ABRAS), the top 20 retail companies represent 41 percent of sector total gross sales, the top 50 represent 58 percent, and the top 500 retail companies are responsible for 67.6 percent. In 2000, the process of mergers, acquisitions and openings of new stores continued, with the 20 top retail companies expanding their store numbers by 11.6 percent.



Source: ABRAS

According to trade analysts, retail income is forecasted to reach R\$72.4 billion by 2003. Nevertheless, the performance of the Brazilian economy will again define whether or not this goal is feasible.

Retail Gross Sales Index
(Deflated by IGP-DI Index, 1990=100)



Source: ABRAS

1.3. Company Profiles

| Retailer Name | Ownership | Sales* (R\$ Mil) | Share | N° of Outlets | Location Headquarter | Purchasing Agent Type |
|---------------------|----------------------|---------------------|-------------|------------------|-------------------------|--------------------------|
| Pão de Açúcar Group | Brazilian/ French | 9,550 | 14.1 | 416 | São Paulo | FPI, LI, DI |
| Carrefour | French | 9,520 | 14.1 | 201 | São Paulo | FPI, LI, DI |
| Bompreço | Dutch | 3,042 | 4.5 | 106 | Pernambuco | FPI, LI, DI |
| Sonae | Portuguese | 3,000 | 4.4 | 170 | Rio Grande do Sul | FPI, LI, DI |
| Casas Sendas | Brazilian | 2,478 | 3.7 | 83 | Rio de Janeiro | FPI, LI, DI |
| TOTAL TOP 5 | | 27,600 | 40.8 | 976 | | |
| Wal Mart | American | 1,211 | 1.8 | 20 | São Paulo | FPI, LI, DI |
| Se/Jeronimo Martins | Portuguese | 934 | 1.4 | 59 | São Paulo | FPI, LI, DI |
| Cia Zaffari | Brazilian | 754 | 1.1 | 19 | Rio Grande do Sul | FPI, LI, DI |
| G. Barbosa | Brazilian | 629 | 0.9 | 35 | Sergipe | FPI, LI, DI |

| | | | | | | |
|-----------------------------|-----------|---------------|-------------|--------------|-----------|---------|
| Coop Cooperativa de Consumo | Brazilian | 543 | 0.8 | 14 | São Paulo | FPI, LI |
| TOTAL TOP 10 | | 31,673 | 46.8 | 1,123 | | |

1.4. Sector Trends

Retail stores and specialty boutiques are opening more shelf space for refined imported products. In general, the market for imported products has shrunk since 1997, a consequence of exchange rate devaluation and a tightening economy. Nevertheless, there are niche markets to be developed. Those segments demand more sophisticated items. Local importers are focusing on premium products. Despite higher prices, the targeted consumer has given special attention to the process by which a product is manufactured. The more refined the process, the more attention the product receives.

2. Food Ingredients

2.1. Entry Strategy

The offer of domestic organic processed products in the local market is presently very limited. A few more years will be needed before U.S. suppliers find a consistent demand for organic ingredients from domestic food companies. However, as the organic trend develops, the Brazilian food industry will expand in this segment, at which time organic ingredients will represent good sales potential.

2.2. Market Summary

The food processing industry increasingly gained ground in the local market in recent years. In 2000, the Brazilian food industry revenues amounted R\$100.6 billion (US\$55 billion), 10 percent of the national GDP. Following trade liberalization in the mid-1990's, the sector invested heavily in technology. Additionally, increased foreign competition led to a sharp rise in local productivity, product diversity and general quality, further stimulating sector expansion. Dynamism, combined with a solid structure, enabled the food processing industry to overcome recent economic challenges.

Food Processing Sector Trade Balance (US\$ Billion)

| | 1998 | 1999 | 2000 | 2001* |
|---------------------------|-------------|-------------|-------------|--------------|
| Production | 71.3 | 49.1 | 54.9 | 38.6 |
| Exports (processed foods) | 8.6 | 6.6 | 7.5 | 8.9 |
| Imports (processed foods) | 2.1 | 0.8 | 1.4 | 0.9 |

| | | | | |
|---------------------------|---------|---------|---------|---------|
| Domestic Consumption | 64.8 | 43.3 | 48.8 | 30.6 |
| Exchange Rate (R\$/US\$1) | R\$1.16 | R\$1.81 | R\$1.83 | R\$2.80 |

Source: Brazilian Food Processors' Association (ABIA)

* Current trend analysis/current numbers were not available.

In 1999, according to the latest report of the Ministry of Labor and Employment (MTE), the Brazilian food industry comprised 40,000 legally established companies, employing approximately 770,000 individuals. The food sector focuses predominantly on the domestic market, which account for about 90 percent of revenues. The sector is composed mostly of small and medium sized companies. Approximately 90 percent of food processors are small companies (1 to 19 employees).

While a major producer of coffee, sugar cane, orange, soybean, manioc flour, corn, cacao, beef, pork, poultry and milk, Brazil is not self-sufficient in processed foods. To benefit from local resources, and gain certain comparative advantages in their market, Brazilian food processors work closely with local producers to aggregate the value of domestic production. Pressure on the bottom line leads to an emphasis on the top line, consequently pushing the industry to create new products. According to data from Brazilian Food Processors' Association (ABIA), published in 1999, there were over 820 types of products in the Brazilian market.

3. Food Service Products

3.1.Entry Strategy

Aside from industrial and airline caterers that achieve volumes sufficient to negotiate directly with foreign suppliers, the Brazilian HRI sector, in general, purchases imports on the local market. HRI buyers tend to procure from the same companies as retailers. Therefore, U.S. firms seeking to place their products in the Brazilian market will need to develop a relationship with local importers.

Industrial caterers, in general, are price oriented, which does not mean that imported items are excluded from their portfolio. Identifying what product can be competitive within this segment is challenging. The segment shows a predilection toward products and ingredients in bulk.

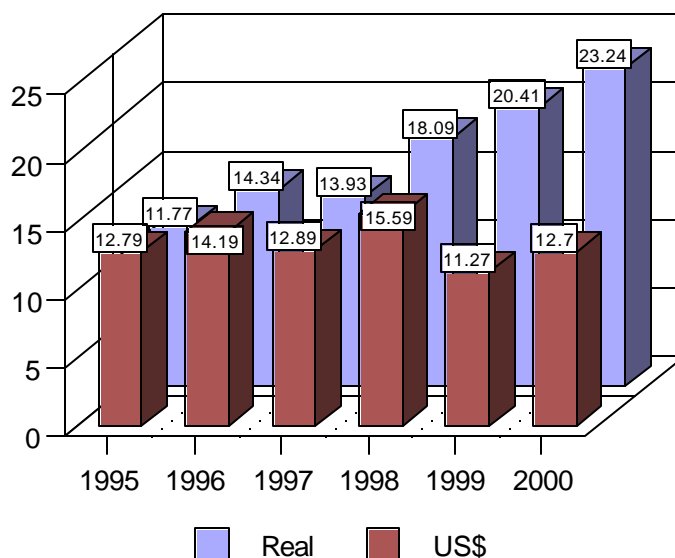
Airline caterers, a segment capable of negotiating directly with foreign suppliers, are an interesting prospect for U.S. exporters. Organic foods and beverages are already being offered to business and first class passengers, as organic items represent differentiation and high status.

The local import companies have begun giving more attention to HRI demand. As such, several local importing companies have established specific divisions to assist the sector. For local importers the HRI sector is a challenge as logistics is a major factor due to relatively small purchase volumes with high distribution costs. The products being imported for the segment are mainly for individual use. In general, the HRI sector has bought products similar to those of interest to retailers.

3.2. Market Summary

The Brazilian food service industry encompasses bars, restaurants, fast food, snack shops, bakeries, pastry shops and industrial catering. Due to the different formats of establishments, distribution has become a pivotal, and growing, factor. The great majority of establishments purchase small volumes, which generates transportation costs many times the value of the product. It is a consensus among trade analysts that distribution should become more rational in order for the HRI sector to move forward. For industrial caterers, transportation costs are even more critical, as the segment operates with very low margins. On average, an industrial meal cost R\$3.50 (US\$1.93). According to the Brazilian Industrial Caterers Association (ABERC), in 1999, 7.5 million meals were served daily. ABERC indicates that the Brazilian market for industrial catering is underdeveloped – 20 million meals could be consumed by private companies and 17 million meals by schools, hospitals and military.

Brazilian Food Service Purchases of Processed Food Items



Source: ABIA

The Brazilian tourism industry is going through a cycle of investments and expansion. This process created new competitive standards, stimulating consolidations and mergers. Business travel has also contributed to the sector development, promoting the entry of international hotel operators and hotel chains in the local market. According to ABIA, the hotel sector will inaugurate 300 new establishments through 2003.

Food and beverage sales are the second major income generator of the hotel sector. Usually, food items generate higher returns when compared to beverage items. The Brazilian Tourism Agency (EMBRATUR) conducted research in 1997 which showed that food and beverage items represent 21.4 percent and 5.6 percent, respectively, of total sector income. The study also showed that the higher the standard of the hotel, the higher is the food and beverage share.

3.3. Sector Trends

According to HRI contacts, the sector cannot promote dishes made with organic products. There are no guarantees to consumer that the information is reliable. There are expectations among HRI executives that regulations will be implemented to legitimize and facilitate the use of organics. Restaurant owners will probably need to get certification from an LCA in order to write in their menu that dishes contain organic ingredients. Products considered best prospects are those that are displayed to consumers in the original package, i.e, condiments, beverages, etc.

IV. Promotional Activities

To date, no promotional campaigns have been held to support the organic concept. However, a promotional campaign is expected to occur in this year, according to trade sources. The approximately US\$100,000 marketing campaign will be sponsored by local producers.

ATO Brazil will use participation in the major São Paulo Supermarket Association (APAS) trade show May 20-23, 2002, to highlight U.S. organic and health food products. U.S. companies interested in participating in this activity should contact the ATO. This activity will be sponsored by ATO Brazil, therefore there will not be participation fees. Costs are limited to shipment of samples and printed material, travel, etc.

V. Post Contacts and Further Information

If you have any question or comments regarding this report or need assistance exporting processed food products to Brazil, please do not hesitate to contact the U.S. Agricultural Trade Office in São Paulo or the Office of Agricultural Affairs in Brasilia at the following addresses:

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APO AA 34030-3502

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